

**REPORT OF THE AUDIT OF THE
NELSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NELSON COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Nelson County Fiscal Court for fiscal year ended June 30, 2004. We have issued unqualified opinions on the governmental activities, business-type activities, agency fund, each major fund, and aggregate remaining fund information financial statements of Nelson County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Nelson County's major federal programs, Community Development Block Grant and Highway Planning and Construction Grant.

Financial Condition:

The fiscal court had net assets of \$60,255,431 as of June 30, 2004. The fiscal court had unrestricted net assets of \$48,153,520 in its governmental funds as of June 30, 2004, with total net assets of \$48,290,850. In its enterprise fund, total net cash and cash equivalents were \$3,465,209 with total net assets of \$11,964,581. The fiscal court had total debt principal as of June 30, 2004 of \$13,539,473 with \$1,944,477 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

Report Presentation:

The County Treasurer prepared the information as stated in the table of contents from page x to page xx.

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APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Dean Watts, Nelson County Judge/Executive
Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, agency fund, each major fund, and the aggregate remaining fund information of Nelson County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of the Nelson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Nelson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, agency fund, each major fund, and the aggregate remaining fund information of Nelson County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Dean Watts, Nelson County County Judge/Executive
Members of the Nelson County Fiscal Court

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nelson County, Kentucky's basic financial statements. The accompanying supplementary information is presented for additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 12, 2005 on our consideration of Nelson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 12, 2005

NELSON COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Dean Watts	County Judge/Executive
Roy Drake	Magistrate
Tim Hutchins	Magistrate
Raymond Greer	Magistrate
Maynard Wimsatt	Magistrate
Bernard Ice	Magistrate

Other Elected Officials:

John Kelley, Jr.	County Attorney
Dorcas Figg	Jailer
Phyllis Mattingly	County Clerk
Diane Thompson	Circuit Court Clerk
Mike Newton	Sheriff
Barbara Tichenor	Property Valuation Administrator
Joseph L. Greenwell	Coroner

Appointed Personnel:

Betty A. King, CPA, CGFM	County Treasurer
Teresa Haffner	Occupational Tax Collector
Dixie Smith	Finance Officer

<p style="text-align: center;">COUNTY OF NELSON, KENTUCKY MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004</p>

The Governmental Standards Accounting Board recently revised state and local governmental reporting requirements and added a requirement to include management's discussion and analysis to the annual report. Hopefully, this narrative will explain, in simpler terms, some of the more important issues in our financial statements. We have presented an overview of the County's financial activities for the fiscal year ended June 30, 2004, within the limitations of the County's modified cash basis of accounting. Please read it along with the County's financial statements that begin on page 13.

FINANCIAL HIGHLIGHTS

- Capital assets have been added to the financial statements this year. Using estimated historical costs, the County has acquired over \$165 million in buildings, roads, land and land improvements, as well as equipment and vehicles. Compared to the \$13.5 million in outstanding debt, it is clear that most capital improvements are financed with cash.
- The County's net assets decreased by \$1.9 million, including depreciation of capital assets of \$5.1 million. This decrease reflects an ongoing issue of finding additional resources for funding the expanding service needs for Nelson County's growing population.
- The County's General Fund ended the year with a fund balance of \$390,959, which represents 9% of operating revenues in that fund.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement 34, as applicable to the County's modified cash basis of accounting. Fiscal year 2004 is the first year that Nelson County has applied these reporting guidelines.

Report Components

This annual report includes five parts as follows:

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities (on page 13) provide information about the activities of the County government-wide (or "as a whole") and present a longer-term view of the County's finances. Long-term debt and capital assets are added to the cash balances to highlight investments that will provide future services.

Fund Financial Statements: Fund financial statements (*starting on page 15*) focus on the individual parts of the County government. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing

information about the County's individual funds. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains for future spending. For *proprietary activities*, these statement offer short-term and long-term financial information about the activities the County operates like businesses, such as EMS, landfill, and solid waste pickup.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: This Management's Discussion and Analysis and the Budgetary Comparison Schedules (*starting on page 20*) represent financial information that GASB requires in our presentation of the annual financial report. These schedules and narratives provide users with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

Basis of Accounting

The County is required by the Kentucky State Local Finance Officer to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities and in the fund financial statements for proprietary fund activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the County "as a Whole"

The County's Reporting Entity Presentation

This annual report includes all activities for which the Nelson County Fiscal Court is fiscally responsible. These activities, defined as the County's reporting entity, are operated within separate legal entities that make up the primary government. While several related governmental organizations exist in Nelson County, Nelson County is not fiscally responsible for entities other than the Public Properties Corporation and the Public Improvement Corporation. Those corporations are included in the primary government's PIC fund.

The Government-Wide Statement of Net Assets and the Statement of Activities

Our financial analysis of the County as a whole begins on page 13. The government-wide financial statements are presented on pages 13 and 14. One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all of the County's assets and liabilities resulting from the use of the modified cash basis of accounting.

These two statements report the County's net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the County's net assets—the difference between assets and liabilities—as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the property tax base, economic development, and the condition of the County's roads, to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities, we divide the County into three kinds of activities:

Governmental activities. Most of the County's basic services are reported here, including the jail, county police, general administration, streets, parks, social services, as well as the state and federal grants. Property taxes, the occupational license fee, and various fees finance these operations.

Business-type activities. The County charges a fee to customers to help cover all or most of the cost of certain services. The County's Solid Waste, Landfill, Ambulance Service, and Public Improvements Corporation are reported here.

Reporting the County Most Significant Funds

The Fund Financial Statements

Our analysis of the County's major funds begins on 9. The fund financial statements begin on page 15 and provide detailed information about the most significant funds—not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the Fiscal Court establishes certain other funds to help it control and manage money for specific activities or to show that it is meeting legal responsibilities for using certain taxes, grants, and other funds. The County's two kinds of funds—*governmental* and *proprietary*—use different accounting approaches.

Governmental funds—Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. In Nelson County, these funds include General, Road, Local Government Economic Assistance, Jail, Occupational License Fee, and Federal Grant Funds. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. If you review the changes to fund balance, you can determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We outline the differences (generally capital assets, depreciation, and long-term debt) between the governmental activities in the government-wide statements and the governmental fund statements with a schedule at the end of the governmental fund statements. This year we reported all funds as major because each fund reports significant programs for our readers.

Proprietary funds—When the County charges customers for the services, these services are generally reported in proprietary funds. In Nelson County, these funds include the Ambulance Service, Solid Waste Pickup, Landfill, and Public Improvement Corporations. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. For example, proprietary fund capital assets are capitalized and depreciated while principal payments on long-term debt are recorded as a reduction to the liability. In fact, the county's proprietary fund financial statements are essentially the same as the business-type activities in the government-wide statement with more individual fund detail and the cash flow statement.

A FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets—Modified Cash Basis

The County combined net assets, resulting from modified cash basis transactions, decreased from \$62 million between fiscal years 2003 and 2004. Net assets for governmental activities decreased \$3.5 million, while net assets for business-type activities increased \$1.6 million. Net assets as of June 30, 2004 are summarized below:

	Governmental	Business-Type	Total
Current assets	\$ 703,860	\$ 3,465,209	\$ 4,169,069
Capital assets	48,586,990	21,038,845	69,625,835
Total assets	49,290,850	24,504,054	73,794,904
Long-term debt	1,000,000	12,539,473	13,539,473
Net Assets:			
Invested in capital assets, net of related debt	47,586,990	8,499,372	56,086,362
Restricted	137,330	664,015	801,345
Unrestricted	566,530	2,801,194	3,367,724
Total net assets	\$48,290,850	\$11,964,581	\$60,255,431

Restricted governmental funds are reserved for road improvements in accordance with state requirements for the County Road Aid and Local Government Economic Assistance statutes. \$600,000 has been set aside in the Landfill Fund to provide for the costs to close and monitor the landfill. The remaining \$64,015 restricted business-type funds are held for the closeout on the Justice Center construction.

Governmental unrestricted net assets represent about 8% of annual revenues in those funds. The County is monitoring annual budgets closely to identify new sources of revenues and alternatives for cost reduction to improve the financial status of the governmental activities.

Business-type unrestricted net assets represent about 45% of annual revenues in those funds. A new phase is under construction in FY 2005, so that reserve will decrease to 20% as the County funds that expansion with cash reserves, not long-term debt.

Capital assets were added to the financial statements this year as the County implemented provisions of the revised governmental reporting model. Outstanding debt is only about 19% of the net value of capital assets. The largest debt was incurred to finance the Justice Center which is leased by the Commonwealth of Kentucky for district and circuit court facilities. Therefore, the Commonwealth is responsible for \$10.99 million of the

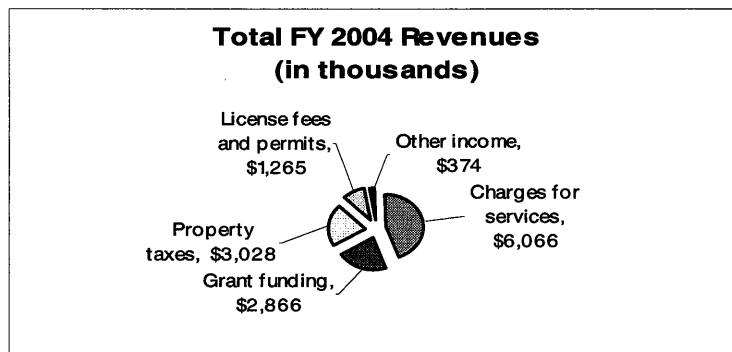
total \$12.54 million in debt (or 88% of the outstanding bond issues). The County is only funding \$1.5 million in future principal payments.

Changes in Net Assets—Modified Cash Basis

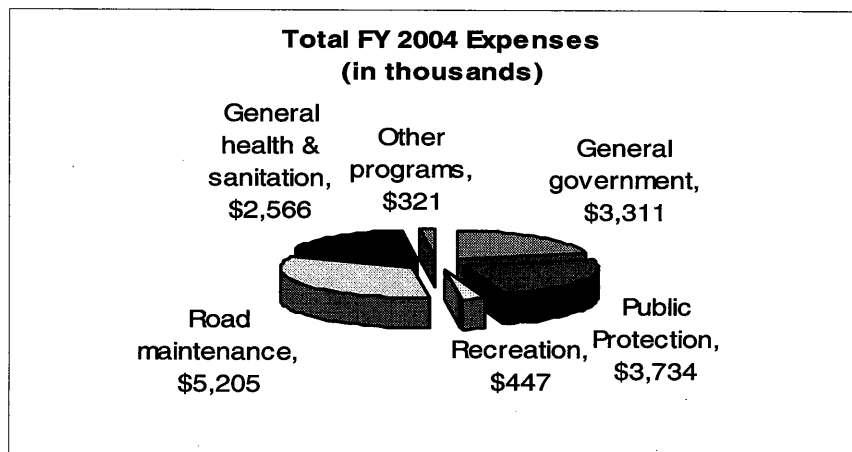
For the year ended June 30, 2004, net assets of the primary government (resulting from modified cash basis transactions) changed as follows:

	Governmental	Business-Type	Total
Revenues			
Charges for services	\$ 309,090	\$5,756,910	\$6,066,000
Operating grants	2,334,219	417,410	2,751,629
Capital grants	113,923		113,923
General Revenues			
Property tax	3,028,276		3,028,276
Transient room tax		122,787	122,787
License fees	1,264,761		1,264,761
Interest	14,607	26,400	41,007
Miscellaneous	160,378	50,218	210,596
Total Revenues	\$7,225,254	\$6,373,725	\$13,598,979
Expenses:			
General government	1,915,031	1,395,894	3,310,925
Public protection	2,447,901	1,286,033	3,733,934
General health & sanitation	463,943	2,102,219	2,566,162
Social services	143,278		143,278
Recreation	323,991	122,787	446,778
Road maintenance	5,205,384		5,205,384
Transportation	177,475		177,475
Total Expenses	10,677,003	4,906,933	15,583,936
Excess (deficiency) before transfers	(3,451,749)	1,466,792	(1,984,957)
Transfers	(120,455)	120,455	-
Increase (decrease) in net assets	\$(3,572,204)	\$1,587,247	\$(1,984,957)

As in most other Kentucky local governments, property taxes do not provide sufficient revenues to fund governmental services for roads, public safety, and recreation. Nelson County also imposes an occupational license fee to help finance these programs. However, governmental funds also transferred \$300,000 to subsidize the ambulance operations.



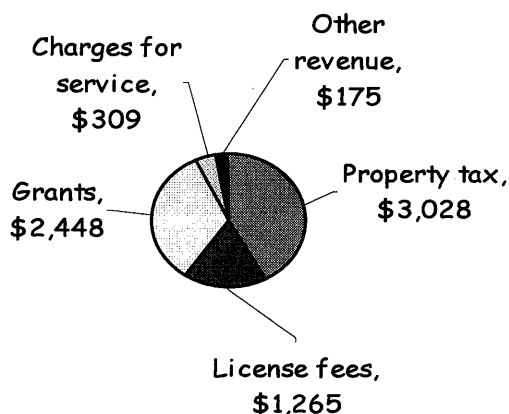
One-third of Nelson County's total expenses are incurred for road improvements and maintenance. Ambulance, Jail, and Law Enforcement account for 26%, while the Solid Waste and Landfill are 16% of the total. General government expenses include costs to help support the Planning & Zoning administration, County Attorney, Coroner, Property Valuation Administration, Justice Center maintenance, and county building maintenance, as well as the administrative staff for county government.



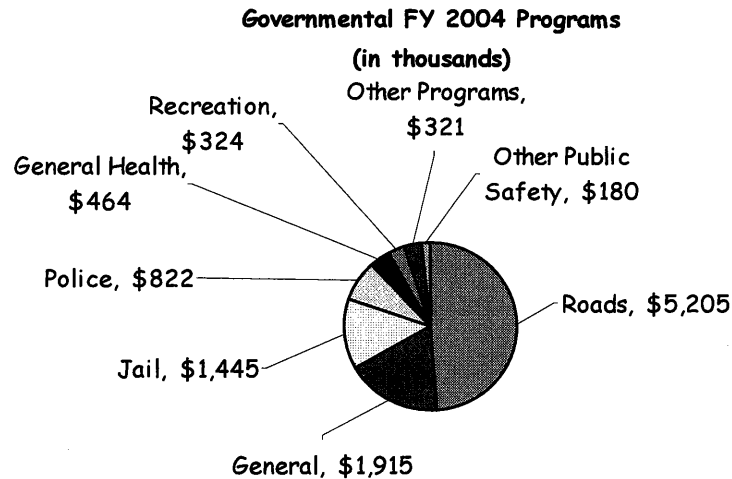
Governmental Activities

Property tax and the occupational license fee provide a substantial portion of the resources for governmental services. Grants also provide funding, mostly for the Roads and the Disaster & Emergency Services.

Governmental FY 2004 Revenues (in thousands)



Expenses, on the other hand, spread these resources to a wide variety of programs. Roads are, of course, the major program. Additional services include the Jail, County Police, recreation, and other programs. Other public safety programs include building inspection and contributions to local fire departments. General Health and Safety includes the Division of Animal Control and the subsidy to the County Health Department.



Business-Type Activities

Most of the County's charges for services fund the Ambulance Service, Landfill, and Solid Waste pickup.

- ✓ Landfill revenues exceeded the costs of operations by \$1.1 million in fiscal year 2004. These resources will be used to finance the cost of expanding the landfill during the next year.
- ✓ Solid Waste revenues exceeded costs by \$181,918.
- ✓ The County transfers the transient room tax to the Tourism Board for promoting and supporting tourism activities, an important economic segment in Nelson County.
- ✓ The Ambulance Service continues to rely on subsidies from the occupational license fee revenues.
- ✓ General government represents the building and equipment leases, as well as other capital improvements such as waterlines to rural areas.

A FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The fund statements provide a more detailed look at the individual programs for Nelson County. Some of the highlights in the fund statements include:

- ⇒ Funding for the Jail required an additional \$175,000 and \$200,000 was transferred to the Ambulance fund. Combined with normal inflation in other costs, the General Fund balance decreased by \$418,452. The County is reviewing future budgets carefully to evaluate funding options for critical programs.
- ⇒ A portion of the occupational license was transferred to cities within Nelson County, but the transfers will likely be discontinued to help subsidize the Jail and Ambulance operations.
- ⇒ The County Landfill lost one major customer, Washington County, at the end of this fiscal year, but revenues were quickly replaced with new customers from the expanding industrial segment in Nelson County.
- ⇒ Transfers from Solid Waste and Landfill to the General fund reimburse for the administrative costs for those operations.

Budgetary Highlights

County budgets in Kentucky are approved and monitored by the State Local Finance Officer. Counties are allowed to make line-item transfers during the year without state approval. Significant variations in the budget include the following:

- 1) General Fund
 - a) Revenues were lower than expected when the State did not remit funds to purchase the Wickland Property. The County borrowed funds from a local bank in anticipation of receipt of the grant award within the next year.
 - b) Owner financing for a portion of the Wickland purchase had not been included in the budget which caused an overage in the capital line item. A portion of this loan will also be repaid with the grant funds.
- 2) Ambulance Fund user fees exceeded budget estimates by \$157,231 reducing the need for additional subsidies from General.
- 3) Landfill Fund tipping fees exceeded budget by \$601,538 as a result of the expanding customer base in Nelson and surrounding counties.
- 4) An additional \$375,000 was borrowed to complete the construction of the Justice Center to house State district and circuit courts.
- 5) PIC Fund budget was amended to provide financing for purchase of land for a new Industrial Park, but the deal was not finalized until July, 2004.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets—Modified Cash Basis

At June 30, 2004, the County had over \$69 million invested in capital assets, net of depreciation. Roads and bridges are included in the infrastructure category as required by GASB Statement 34. Reporting these assets will allow readers to review the County's investment for future services.

Nelson County's Capital Assets
(net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 1,684,346	\$ 1,467,696	\$ 3,152,042
Land improvements	206,312	4,957,817	5,164,129
Buildings	3,283,994	12,779,929	16,063,923
Vehicles	584,510	1,286,295	1,870,805
Computers	9,900	28,717	38,617
Equipment	174,197	518,391	692,588
Infrastructure	42,643,731		42,643,731
Total	<u>\$ 48,586,990</u>	<u>\$ 21,038,845</u>	<u>\$ 69,625,835</u>

Wickland (\$1 million) was the major purchase in the governmental activities while the largest addition in the business-type activities was completion of the Justice Center (\$2.1 million). Solid Waste purchased a new garbage truck, EMS bought one new ambulance, and the Landfill added roll-off containers and expanded the recycling program with additional equipment purchases.

Depreciation is an important measure of the age of the County's assets. 65% of the governmental assets have been depreciated while only 23% of the business-type activities have been depreciated. Nelson County was established in 1780, so many roads are older than the 20 year life used for depreciation. Newer subdivision streets are being added, however, as residential growth continues. Depreciation is lower in the business-type activities since the Justice Center was only opened in November 2003.

Long-Term Debt—Modified Cash Basis

At June 30, 2004, the County had \$13.5 million in long-term debt arising from modified cash basis transactions compared to \$13.3 million at June 30, 2003.

Nelson County's Outstanding Debt			
	Governmental Activities	Business-Type Activities	Total
Bonds		\$ 10,990,000	\$ 10,990,000
Notes	1,000,000	1,286,473	2,286,473
Capital leases		263,000	263,000
Total	\$ 1,000,000	\$ 12,539,473	\$ 13,539,473

Nelson County's debt is unique in that taxpayers only provide funding for one note—the Ambulance purchase. Other debt is paid from customer revenues and leases as follows:

- Governmental notes will be paid in full when grant revenues are received from the State for the Wickland purchase.
- Landfill debt will also be retired in fiscal year 2005.
- Capital leases funded a fire truck for Northeast Nelson, a water tank in New Haven, and two airport hangars at Samuels Field. Lease revenues provide 100% of the debt service requirements.
- Bonds were issued for the new Justice Center which is also funded with a lease to the Commonwealth of Kentucky.
- Note payments on the Nelson County Plaza are paid from leases with commercial entities located in the shopping areas.
- Payments for waterline construction are paid by the property owners served by the new lines.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Inflationary pressures continue to cause problems for the General Fund budget in fiscal year 2005. The Jail subsidy will likely increase another \$100,000 and the Ambulance is facing a tight year with the Medicare rates. Solid Waste and Landfill budgets benefit from new customers from the County's economic growth.

On a brighter note, the economy in Nelson County is showing strong signs of continued expansion. The Fiscal Court moved forward with plans for a new Industrial Park and will be acquiring 424 acres of prime real estate fronting the Martha Layne Collins Parkway, a major transportation artery in Kentucky. This purchase will ensure that Nelson County has additional land inventory to attract new businesses.

While grant funding has taken longer than anticipated, the acquisition of the Wickland property is an exciting project. Wickland is the home of three Kentucky governors and

Nelson County hopes to develop it into another State Park and expand our tourism base. The Bardstown-Nelson County Tourism Commission is helping with the funding and redevelopment of the facility.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

We hope this report helps our citizens, taxpayers, customers, and creditors understand our finances. We should demonstrate our accountability for the resources we manage and the annual financial report is an important communication tool to accomplish that goal. If you have any questions about this report or need additional financial information, please contact the County Treasurer, Betty A. King, CPA, CGFM, at One Court Square in Bardstown, by phone at 502-348-1804, or by visiting our website at www.nelsoncountky.com.

<p style="text-align: center;">COUNTY OF NELSON</p> <p style="text-align: center;">STATEMENT OF NET ASSETS</p> <p style="text-align: center;">June 30, 2004</p>

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 703,860	2,801,194	\$ 3,505,054
Restricted cash & investments		664,015	664,015
Capital assets, net	48,586,990	21,038,845	69,625,835
Total assets	49,290,850	24,504,054	73,794,904
LIABILITIES			
Noncurrent liabilities:			
Due within one year	693,109	1,251,367	1,944,477
Due in more than one year	306,891	11,288,106	11,594,996
Total liabilities	1,000,000	12,539,473	13,539,473
NET ASSETS			
Invested in capital assets, net of related debt	47,586,990	8,499,372	56,086,362
Restricted for:			
Infrastructure	137,330	600,000	737,330
Construction Fund		64,015	64,015
Unrestricted	566,530	2,801,194	3,367,724
Total net assets	\$ 48,290,850	\$ 11,964,581	\$ 60,255,431

See accompanying notes to the basic financial statements.

COUNTY OF NELSON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General	County Road Aid	Jail	LGEA	OLF	Homeland Security Grants	Total Governmental Funds
REVENUES:							
Taxes	\$ 3,028,276						\$ 3,028,276
Business licenses	332,332				\$ 932,429		1,264,761
Fines & forfeitures							-
Intergovernmental revenues	805,963	\$ 1,246,387	\$ 133,694	\$ 148,175		113,923	2,448,142
Charges for services	196,361		112,729				309,090
Interest	11,176	2,577			854		14,607
Other	17,026	4,799	138,553				160,378
Total revenues	4,391,134	1,253,763	384,976	148,175	933,283	113,923	7,225,254
EXPENDITURES:							
Current operating:							
General Government	1,732,227				140,642		1,872,869
Public Protection							
Jail			1,341,617				1,341,617
Law Enforcement	715,445						715,445
Building Inspection	46,574						46,574
Fire Protection	17,147						17,147
Emergency Management	92,241						92,241
Public Advocacy	4,685						4,685
General Health & Sanitation	452,037						452,037
Social Services	143,278						143,278
Recreation & Culture	231,675						231,675
Road Maintenance	22,739	1,040,880		198,897			1,262,516
Transportation Services	175,075				2,400		177,475
Capital outlay	1,143,259	864,359	4,321		33,323	126,480	2,171,742
Debt service	2,922,117						2,922,117
Total expenditures	7,698,499	1,905,239	1,345,938	198,897	176,365	126,480	11,451,418
Excess (deficiency) of revenues over expenditures before transfers and other sources	(3,307,365)	(651,476)	(960,962)	(50,722)	756,918	(12,557)	(4,226,164)
Transfers and other financing sources:							
Transfers in	152,045	600,000	960,962			13,670	1,726,677
Transfers out	(1,174,632)				(650,000)		(1,824,632)
Loan proceeds	3,911,500						3,911,500
Total transfers and other sources	2,888,913	600,000	960,962	-	(650,000)	13,670	3,813,545
Excess (deficiency) revenues over ex	(418,452)	(51,476)	-	(50,722)	106,918	1,113	(412,619)
Fund balances--beginning	809,411	77,349		162,179	67,540	-	1,116,479
Fund balances--ending	\$ 390,959	\$ 25,873		\$ 111,457	\$ 174,458	\$ 1,113	\$ 703,860
Net change in fund balances--total governmental funds							\$ (412,619)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because (see Note 5, also):							
Depreciation expense reported in statement of activities							(4,308,827)
Capital outlay reported in governmental expenditures							2,171,742
Capital assets transferred to proprietary funds							(22,500)
Principal borrowing							(1,000,000)
Principal payments on long-term debt reported as governmental expenditures							
Change in net assets of governmental activities							\$ (3,572,204)

See accompanying notes to the basic financial statements.

COUNTY OF NELSON
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	General Fund	County Road Aid	Jail	LGEA	OLF	Homeland Security Grants	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 390,959	\$ 25,873		\$ 111,457	\$ 174,458	\$ 1,113	\$ 703,860
Investments							
Accounts receivable							
Total assets	<u>\$ 390,959</u>	<u>\$ 25,873</u>		<u>\$ 111,457</u>	<u>\$ 174,458</u>	<u>\$ 1,113</u>	<u>\$ 703,860</u>
LIABILITIES							
FUND BALANCES							
Reserved for:							
Infrastructure		25,873		111,457			137,330
Special projects						1,113	1,113
Unreserved, reported in:							
General fund	390,959				174,458		565,417
Total fund balances	<u>390,959</u>	<u>25,873</u>		<u>111,457</u>	<u>174,458</u>	<u>1,113</u>	<u>703,860</u>
Total liabilities and fund balances	<u>\$ 390,959</u>	<u>\$ 25,873</u>		<u>\$ 111,457</u>	<u>\$ 174,458</u>	<u>\$ 1,113</u>	<u>\$ 703,860</u>
Amounts reported for <i>governmental activities</i> in the statement of net assets (A-1) are different because (see Note 4, also):							
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds.							
							48,586,990
Long-term debt, including bonds and capital leases, are not due and payable in the current period and therefore are not reported in the funds.							
							(1,000,000)
Net assets of governmental activities							<u>\$ 48,290,850</u>

See accompanying notes to the basic financial statements.

COUNTY OF NELSON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General	County Road Aid	Jail	LGEA	OLF	Homeland Security Grants	Total Governmental Funds
REVENUES:							
Taxes	\$ 3,028,276						\$ 3,028,276
Business licenses	332,332				\$ 932,429		1,264,761
Fines & forfeitures							-
Intergovernmental revenues	805,963	\$ 1,246,387	\$ 133,694	\$ 148,175		113,923	2,448,142
Charges for services	196,361		112,729				309,090
Interest	11,176	2,577			854		14,607
Other	17,026	4,799	138,553				160,378
Total revenues	4,391,134	1,253,763	384,976	148,175	933,283	113,923	7,225,254
EXPENDITURES:							
Current operating:							
General Government	1,732,227				140,642		1,872,869
Public Protection							
Jail			1,341,617				1,341,617
Law Enforcement	715,445						715,445
Building Inspection	46,574						46,574
Fire Protection	17,147						17,147
Emergency Management	92,241						92,241
Public Advocacy	4,685						4,685
General Health & Sanitation	452,037						452,037
Social Services	143,278						143,278
Recreation & Culture	231,675						231,675
Road Maintenance	22,739	1,040,880		198,897			1,262,516
Transportation Services	175,075				2,400		177,475
Capital outlay	1,143,259	864,359	4,321		33,323	126,480	2,171,742
Debt service	2,922,117						2,922,117
Total expenditures	7,698,499	1,905,239	1,345,938	198,897	176,365	126,480	11,451,418
Excess (deficiency) of revenues over expenditures before transfers and other sources	(3,307,365)	(651,476)	(960,962)	(50,722)	756,918	(12,557)	(4,226,164)
Transfers and other financing sources:							
Transfers in	152,045	600,000	960,962			13,670	1,726,677
Transfers out	(1,174,632)				(650,000)		(1,824,632)
Loan proceeds	3,911,500						3,911,500
Total transfers and other sources	2,888,913	600,000	960,962	-	(650,000)	13,670	3,813,545
Excess (deficiency) revenues over expenditures	(418,452)	(51,476)	-	(50,722)	106,918	1,113	(412,619)
Fund balances--beginning	809,411	77,349		162,179	67,540	-	1,116,479
Fund balances--ending	\$ 390,959	\$ 25,873		\$ 111,457	\$ 174,458	\$ 1,113	\$ 703,860
Net change in fund balances--total governmental funds							\$ (412,619)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because (see Note 5, also):							
Depreciation expense reported in statement of activities							(4,308,827)
Capital outlay reported in governmental expenditures							2,171,742
Capital assets transferred to proprietary funds							(22,500)
Principal borrowing							(1,000,000)
Principal payments on long-term debt reported as governmental expenditures							
Change in net assets of governmental activities							\$ (3,572,204)

See accompanying notes to the basic financial statements.

COUNTY OF NELSON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	EMS	Jail Canteen	Solid Waste	Landfill	Justice Center Construction	PIC	Total Proprietary Funds
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 83,175	\$ 53,811	\$ 174,426	\$ 2,439,944		\$ 49,838	\$ 2,801,194
Investments							-
Total current assets	<u>83,175</u>	<u>53,811</u>	<u>174,426</u>	<u>2,439,944</u>	<u>-</u>	<u>49,838</u>	<u>2,801,194</u>
Noncurrent assets:							
Cash and cash equivalents					64,015		64,015
Restricted investments				600,000			600,000
Total Restricted Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>600,000</u>	<u>64,015</u>	<u>-</u>	<u>664,015</u>
Capital assets:							
Land	-		-	1,345,196		122,500	1,467,696
Land improvement	-		-	7,537,060		182,583	7,719,643
Buildings	250,000		-	439,068		14,311,888	15,000,956
Vehicles	433,957		884,089	356,609		125,000	1,799,655
Computers	55,635		-	-		-	55,635
Equipment	337,900		149,361	862,821		-	1,350,082
Infrastructure							-
Less accumulated depreciation	(237,448)		(351,175)	(3,884,925)		(1,881,274)	(6,354,822)
Capital assets, net	<u>840,044</u>	<u>-</u>	<u>682,275</u>	<u>6,655,829</u>	<u>-</u>	<u>12,860,697</u>	<u>21,038,845</u>
Total noncurrent assets	<u>840,044</u>	<u>-</u>	<u>682,275</u>	<u>7,255,829</u>	<u>64,015</u>	<u>12,860,697</u>	<u>21,702,860</u>
Total assets	<u>\$ 923,219</u>	<u>\$ 53,811</u>	<u>\$ 856,701</u>	<u>\$ 9,695,773</u>	<u>\$ 64,015</u>	<u>\$ 12,910,535</u>	<u>\$ 24,504,054</u>
LIABILITIES							
Current liabilities:							
Capital leases						38,000	38,000
Bonds, notes, and loans payable	110,667			572,500		530,200	1,213,367
Total current liabilities	<u>110,667</u>	<u>-</u>	<u>-</u>	<u>572,500</u>	<u>-</u>	<u>568,200</u>	<u>1,251,367</u>
Noncurrent liabilities:							
Capital leases						225,000	225,000
Bonds, notes, and loans payable	166,001					10,897,105	11,063,106
Total noncurrent liabilities	<u>166,001</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,122,105</u>	<u>11,288,106</u>
Total liabilities	<u>276,668</u>	<u>-</u>	<u>-</u>	<u>572,500</u>	<u>-</u>	<u>11,690,305</u>	<u>12,539,473</u>
NET ASSETS							
Invested in capital assets, net of related debt	563,376	-	682,275	6,083,329	-	1,170,392	8,499,372
Restricted							
Construction					64,015		64,015
Infrastructure				600,000			600,000
Unrestricted	83,175	53,811	174,426	2,439,944	-	49,838	2,801,194
Total net assets	<u>646,551</u>	<u>53,811</u>	<u>856,701</u>	<u>9,123,273</u>	<u>64,015</u>	<u>1,220,230</u>	<u>11,964,581</u>
Total Net Assets & Liabilities	<u>\$ 923,219</u>	<u>\$ 53,811</u>	<u>\$ 856,701</u>	<u>\$ 9,695,773</u>	<u>\$ 64,015</u>	<u>\$ 12,910,535</u>	<u>\$ 24,504,054</u>

See accompanying notes to the basic financial statements.

COUNTY OF NELSON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	EMS	Jail Canteen	Solid Waste	Landfill	Justice Center Construction	PIC	Total Proprietary Funds
Operating revenues:							
Taxes						\$ 122,787	\$ 122,787
Intergovernmental revenues	\$ 11,133		\$ 10,000	\$ 43,277		353,000	417,410
Charges for services	1,117,231	173,937	931,984	2,408,038	245,413	880,307	5,756,910
Other	4,757	19,736		14,550		11,175	50,218
Total operating revenues	<u>1,133,121</u>	<u>193,673</u>	<u>941,984</u>	<u>2,465,865</u>	<u>245,413</u>	<u>1,367,269</u>	<u>6,347,325</u>
Operating expenses:							
General Government		178,103				473,284	651,387
Public Protection	1,208,257						1,208,257
Recreation						122,787	122,787
General Health & Sanitation:							-
Landfill				1,022,365			1,022,365
Solid Waste			702,624				702,624
Depreciation	77,776		57,442	256,975		447,504	839,697
Total operating expenses	<u>1,286,033</u>	<u>178,103</u>	<u>760,066</u>	<u>1,279,340</u>	<u>-</u>	<u>1,043,575</u>	<u>4,547,117</u>
Operating income (loss)	(152,912)	15,570	181,918	1,186,525	245,413	323,694	1,800,208
Nonoperating revenues (expenses):							
Interest and investment revenue	1,428	222	802	19,276	3,931	741	26,400
Interest expense				(62,813)		(297,003)	(359,816)
Total nonoperating revenue (expenses)	<u>1,428</u>	<u>222</u>	<u>802</u>	<u>(43,537)</u>	<u>3,931</u>	<u>(296,262)</u>	<u>(333,416)</u>
Net income (loss) before contributions and transfers	(151,484)	15,792	182,720	1,142,988	249,344	27,432	1,466,792
Transfers in	300,000						300,000
Transfers out			(84,101)	(117,944)			(202,045)
Change in net assets	<u>148,516</u>	<u>15,792</u>	<u>98,619</u>	<u>1,025,044</u>	<u>249,344</u>	<u>27,432</u>	<u>1,564,747</u>
Total net assets--beginning	498,035	38,019	758,082	8,098,229	1,566,787	(581,818)	10,377,334
Capital assets transferred from governmental funds						22,500	22,500
Total net assets--ending	<u>\$ 646,551</u>	<u>\$ 53,811</u>	<u>\$ 856,701</u>	<u>\$ 9,123,273</u>	<u>\$ 1,816,131</u>	<u>\$ (531,886)</u>	<u>\$ 11,964,581</u>

See accompanying notes to the basic financial statements.

COUNTY OF NELSON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Business-Type Activities
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 5,756,910
Payments to suppliers	(2,081,308)
Payments to employees	(1,626,112)
Internal activity--payments from (to) other funds	
Other receipts (payments)	590,415
Net cash provided (used) by operating activities	<u>2,639,905</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating subsidies and transfers to other funds	97,955
Net cash provided by noncapital financing	<u>97,955</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	375,000
Purchases of capital assets	(2,555,647)
Principal paid on capital debt	(1,217,111)
Interest paid on capital debt	(359,816)
Other receipts (payments)	
Net cash provided (used) by capital and related financing activities	<u>(3,757,574)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and purchases of investments	
Interest and dividends	26,400
Net cash provided by investing activities	<u>26,400</u>
Net increase (decrease) in cash and cash equivalents	(993,314)
Balances--beginning of the year	<u>4,458,523</u>
Balances--end of the year	<u><u>\$ 3,465,209</u></u>

See accompanying notes to the basic financial statements.

COUNTY OF NELSON
STATEMENT OF NET ASSETS
AGENCY FUNDS
June 30, 2004

	Haz Mat 5 Agency Fund
<hr/>	
ASSETS	
Cash and cash equivalents	\$ 75,350
Total assets	<hr/> \$ 75,350 <hr/>
LIABILITIES	
Accounts payable	\$ 75,350
Total liabilities	<hr/> \$ 75,350 <hr/>

See accompanying notes to the basic financial statements.

COUNTY OF NELSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is required by KRS 68.210 and administrative regulations issued by the Kentucky State Local Finance Officer. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statement for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

These financial statements only include those amounts derived from cash transactions and do not include accruals or other noncash transactions. However, the government-wide statements and proprietary fund financial statements reflect depreciation of capital assets while the governmental fund financial statements reflect capital asset purchases. This reporting meets the disclosure requirements outlined in GASB Statement 34 for those assets purchased with cash, notes, or bonds. Long-term debts have been included because those transactions provided cash for capital asset purchases. Accounts payable and other accruals have not been recognized since they did not provide cash.

1.A. FINANCIAL REPORTING ENTITY

The County's financial reporting entity is composed of the following:

Primary Government:	County of Nelson
Blended Component Units:	Public Improvements Corporation
	Nelson County Public Properties Corporation
	Nelson County Jail
	Nelson County Jail Canteen

In determining the financial reporting entity, the County complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the County Fiscal Court, or the component unit provides services entirely to the County. The component unit's funds are blended into those of the County by appropriate fund type to constitute the primary government presentation. The blended component units are presented below:

<u>Component Unit</u>	<u>Description/Inclusion Criteria</u>	<u>Reporting Fund</u>
Nelson County Public Properties Corp	Created , to finance construction of the new Justice Center. County Judge Executive and Magistrates serve as entire governing body. Debt issued by NCPPC requires approval by Fiscal Court.	Public Improvements Fund
Nelson County Public Improvement Corp	Created , to finance long term capital projects. County Judge Executive and Magistrates serve as entire governing body. Debt issued by NCPIC requires approval by Fiscal Court.	Public Improvements Fund
Nelson County Jail	The Jailer is an elected official under the Kentucky Constitution. The County provides administrative support and substantial financial resources for jail operations.	Jail Fund
Nelson County Jail Canteen	Operated by the Jailer to hold funds for jail inmates, sell commissary items, and provide additional services for inmates.	Jail Fund

The component units do not issue separately audited component unit financial statements.

OTHER CONSTITUTIONAL (ELECTED) OFFICIALS

The Kentucky constitution provides for election of the following officials from the geographic area constituting Nelson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

1.B. BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The County presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

- a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

For the year ended June 30, 2004, the County had eleven funds and has elected to classify all funds as major. Nine funds met the criteria above and the other two were deemed to be significant programs that should be reported as major funds.

The funds of the County are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the County and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the County. The reporting entity includes the following special revenue funds, all of which are reported as major funds:

<u>Fund</u>	<u>Description</u>
County Road Aid	Accounts for revenues received and expenditures paid for county road construction and maintenance. Revenues are remitted by Commonwealth of Kentucky in accordance with KRS 177.320
Jail	Accounts for operation of the county jail. Revenues are derived from various state funding sources and transfers from the General Fund
Local Government Economic Assistance	Accounts for the revenues distributed to Kentucky counties under KRS 42.455 and expenditures for certain county road maintenance projects.

Occupational License Fee	Accounts for the collection of occupational tax imposed under the provisions of KRS 68.197. Expenditures include administrative costs, support for certain related entities and transfers to the incorporated cities, County Road Aid and EMS funds
Homeland Security	Accounts for the revenues and expenditures of various grants awarded by the US Department of Homeland Security and passed through from the Commonwealth of Kentucky

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise funds that are reported as major funds:

<u>Fund</u>	<u>Description</u>
Emergency Medical Services	Accounts for the cash receipts and disbursements in providing ambulance service to the public.
Solid Waste	Accounts for the activities of solid waste collection services outside the incorporated city boundaries for county residents
Landfill	Accounts for the operation of the landfill, roll-off container collection services, and dead animal removal for various commercial entities and the public.
Justice Center Construction	Accounts for the leasing, construction, and payment of debt service for the Nelson County Justice Center leased to the Kentucky Administrative Office of the Courts. Will be merged with the Public Improvement Corporation on closeout.
Public Improvement Corporation	Accounts for the leasing, maintenance, and debt service on various county properties leased to commercial entities, other governmental agencies and the public.

Agency Fund

Nelson County provided bookkeeping and administrative services for the Haz Mat 5 Regional Board for the federal grant funds awarded to the Board. The County Treasurer deposited grant funds into a separate checking account and remitted funds to vendors for purchase of equipment approved by the state agency and the regional board. These funds were awarded to the regional Board and the purchased equipment is titled in the Board's name.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

MEASUREMENT FOCUS

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a) All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance (ending checking account balances) as their measure of available spendable financial resources at the end of the period.
- b) The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

BASIS OF ACCOUNTING

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, business-like, and component unit activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements, proprietary fund statements, and the similar discretely presented component unit statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities *are not recorded* in these financial statements.

If the county utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

1.D. ASSETS, LIABILITIES, AND EQUITY

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

INVESTMENTS

Investments classified in the financial statements consist entirely certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

CAPITAL ASSETS

The County's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. All assets acquired after July 1, 2003 are valued at cost.

- Estimated historical costs were used to value the roads and bridges acquired prior to July 1, 2003.
- PVA assessment records were used to value real property acquired prior to July 1, 2003.
- Historical appropriation ledgers were reviewed to identify acquisitions of vehicles and equipment in excess of \$5,000 prior to July 1, 2003.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an expense in the Statement of Activities and attributed to the fund which purchased the asset, with accumulated depreciation reflected in the Statement of Net Assets. Accumulated depreciation as of July 1, 2003, was based on the estimated historical costs as if the assets had been depreciated from the original purchase date. Depreciation is provided over the assets' estimated useful lives using the straight-kline method of depreciation. A capitalization threshold of \$1,000 is used to report equipment and \$10,000 to report real property and infrastructure.

The range of estimated useful lives (by type of asset) is as follows:

Buildings	15 - 25 years
Land improvements	15 - 20 years
Equipment	5 - 10 years
Vehicles	7 - 15 years
Infrastructure	5 - 45 years

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

LONG-TERM DEBT

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

EQUITY CLASSIFICATION

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- a) Invested in capital assets, net of related debt—consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b) Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

It is the County's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

PROGRAM REVENUES

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The County has the following program revenues in each activity:

General Government	Property rental, state and federal grants
Jail	Court fees, inmate housing, state grants
Law Enforcement	State and federal grants
Emergency Management	Federal grants
Public Protection	Ambulance service fees, state grants
Landfill	Tipping fees, state grants
Solid Waste	Collection fees, state grants

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

OPERATING REVENUE AND EXPENSES

Operating revenues and expense for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all revenue and expense not related to capital and related financing, noncapital financing, or investing activities.

1.F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in fund financial statements have been eliminated.

FUND FINANCIAL STATEMENTS

Interfund activity within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

- 1) Interfund services—Landfill charges for tipping fees to the Solid Waste were reclassified from revenues in the Solid Waste fund to revenues in the Landfill fund.
- 2) Interfund reimbursements—Repayments from funds responsible for certain expenditures/expenses to the fund that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
- 3) Interfund transfers—Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

1.6. USE OF ESTIMATES

The preparation of financial statement in conformity with the other comprehensive basis of accounting (OCBOA) used the County requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2—STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the County and its component units are subject to various federal, state, and local laws and contractual regulations. Management is not aware of any noncompliance as of June 30, 2004, that is considered to be material to the financial statements.

NOTE 3—CASH AND INVESTMENTS

CUSTODIAL CREDIT RISK—DEPOSITS

The table presented below is designed to disclose the level of custodial credit risk assumed by the County based upon how its deposits were insured or secured with collateral at June 30, 2004. The comparison relates to the primary government only. The categories of custodial credit risk are defined as follows:

- Category 1— Insured by Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by the County or by its agent in its name.
- Category 2— Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the County's name.
- Category 3— Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the County's name; or properly collateralized with no written and approved collateral agreement.

Type	Carrying Value	Total Bank Balance	Category Risk 1	Category Risk 2	Category Risk 3
Insured Deposits	\$ 400,000	\$ 400,000	\$ 400,000	\$	\$
Uninsured, collateralized	1,439,451	1,439,451		1,439,451	
Total Deposits	\$ 1,839,451	\$ 1,839,451	\$ 400,000	\$ 1,439,451	\$

INVESTMENTS AND CUSTODIAL CREDIT RISK

Investments are limited by KRS 66.480 to the following:

- a) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements;
- b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or its agency;
- c) Obligations of any corporation of the United State government;
- d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the FDIC
- e) Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency;
- f) Bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency;
- g) Commercial paper rated in the highest category by a nationally recognized rating agency;
- h) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities
- i) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency; and
- j) Share of mutual funds, subject to certain specific criteria.

During the year ended June 30, 2004, the County's investments consisted solely of certificates of deposit whose original maturity term exceeds three months. The carrying value and the fair value of the certificates of deposit totaled \$600,000. For purposes of the custodial credit risk, the certificates of deposit are included in the preceding table of deposits risk analysis.

NOTE 4—RECEIVABLES

- A. The county loaned \$1,690 each to 123 residents of the Melody Lake Area on March 1, 1997, for the purpose of providing waterlines to their homes. These notes bear interest at 7% per year. Terms of the agreements stipulate monthly payments of \$25.51. These notes matured February 28, 2004. As of June 30, 2004, the delinquent principal balance due was \$13,475.42. The County will file liens against the properties for these balances.
- B. The county loaned \$2,500 each to five residents and \$1,800 to one resident of the Roberts Road Area on May 1, 1997, for the purpose of providing waterlines to their homes. These notes bear interest at 7% per year. Terms of the agreements stipulate monthly payments of \$29.03 until April 30, 2007. Records indicate that the residents are in substantial compliance with the terms of the agreements. As of June 30, 2004, the principal balance due was \$6,043.84.

- C. The county loaned \$3,446 each to seventeen residents of the Bellwood Road Area #1 on March 1, 1998, for the purpose of providing waterlines to their homes. These notes bear interest at 6% per year. Terms of the agreements stipulate monthly payments of \$29.08 until February 28, 2013.. Records indicate that the residents are in substantial compliance with the terms of the agreements. As of June 30, 2004, the principal balance due was \$30,724.50.
- D. The county loaned \$2,167 each to twelve residents of the Bellwood Road Area #2 on December 1, 1997, for the purpose of providing waterlines to their homes. These notes bear interest at 6.24% per year. Terms of the agreements stipulate monthly payments of \$24.32 until November 30, 2007. Records indicate that the residents are in substantial compliance with the terms of the agreements. As of June 30, 2004, the principal balance due was \$7,340.48.
- E. The county loaned \$600 each to eleven residents and \$850 to two residents of the Keith Knob Area on December 1, 1998, for the purpose of providing waterlines to their homes. These notes bear interest at 6% per year. Terms of the agreements stipulate monthly payments of \$18.25 for the \$600 agreements and \$25.86 for the \$850 agreements. These notes matured November 30, 2001. As of June 30, 2004, the delinquent principal balance due was \$2,201.16. The County will file liens against the properties for these balances.

NOTE 5—CAPITAL ASSETS

Capital asset activity resulting from modified cash basis transactions, for the fiscal year ended June 30, 2004, was as follows:

	Primary Government	
	Beginning Balance	Ending Balance
Governmental activities:		
Land	\$ 1,684,346	\$ 1,684,346
Land improvements	249,952	302,359
Buildings	10,105,557	11,154,913
Vehicles	1,408,725	1,512,450
Computers	7,673	19,145
Equipment	144,148	251,534
Infrastructure	122,937,793	123,762,689
Totals at historical cost	136,538,194	138,687,436
Land improvements	(72,638)	(96,047)
Buildings	(7,606,739)	(7,870,919)
Vehicles	(780,908)	(927,940)
Computers	(7,393)	(9,245)
Equipment	(54,585)	(77,337)
Infrastructure	(77,269,356)	(81,118,958)
Total accumulated depreciation	(85,791,619)	(90,100,446)
Governmental activities capital assets, net	\$ 50,746,575	\$ 48,586,990

Business-type activities:			
Land	1,445,196	22,500	1,467,696
Land improvements	7,681,410	38,233	7,719,643
Buildings	12,872,849	2,128,107	15,000,956
Vehicles	1,477,282	322,373	1,799,655
Computers	55,635		55,635
Equipment	1,283,148	66,934	1,350,082
Totals at historical cost	24,815,520	2,578,147	27,393,667
Land improvements	(2,566,829)	(194,997)	(2,761,826)
Buildings	(1,753,015)	(468,012)	(2,221,027)
Vehicles	(389,313)	(124,047)	(513,360)
Computers	(15,791)	(11,127)	(26,918)
Equipment	(790,177)	(41,514)	(831,691)
Less accumulated depreciation:	(5,515,125)	(839,697)	(6,354,822)
Business-type activities capital assets, net	<u>\$ 19,300,395</u>	<u>\$ 1,738,450</u>	<u>\$ 21,038,845</u>

Depreciation expense was charged to governmental functions as follows:

General Government	31,545
Public Protection	
Jail	103,827
Law Enforcement	106,549
Building Inspection	6,232
Emergency Management	13,584
General Health & Sanitation	11,906
Recreation & Culture	92,316
Road Maintenance	3,942,868
	<u>\$ 4,308,827</u>

NOTE 6—LONG-TERM DEBT

The County's long-term debt arising from cash transactions is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

GOVERNMENTAL ACTIVITIES

	Beginning Balance	Additions	Reductions	Ending Balance**	Amounts Due within One Year
Wickland note		\$ 600,000		\$ 600,000	\$600,000
Wickland purchase		400,000		400,000	93,109
Total Notes Payable	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000	\$693,109

The notes listed above were incurred as follows:

- Wilson & Muir Bank loaned \$600,000 to complete the purchase of Wickland property prior to receipt of federal grant funds. This note bears interest at an annual rate of 3.5% and is due when grant funds are received. Interest is payable every 90 days until the note is repaid.
- The balance of the Wickland purchase, \$400,000, is payable to Mrs. Sara E. Trigg, in annual installments of \$113,109.35, due in November each year. The promissory note bears interest at a rate of 5% per annum.

BUSINESS-TYPE ACTIVITIES

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds and notes payable:					
Landfill note	\$ 1,050,000		\$ (500,000)	\$ 550,000	\$ 550,000
Landfill mortgage	45,000		(22,500)	22,500	22,500
Plaza note	500,000		(135,000)	365,000	110,000
Melody Lake waterlines	96,249		(23,944)	72,305	25,200
EMS purchase	387,335		(110,667)	276,668	110,667
Justice Center-2002	11,005,000		(370,000)	10,635,000	380,000
Justice Center-2003		375,000	(20,000)	355,000	15,000
Total bonds & notes	13,083,584	375,000	(1,182,111)	12,276,473	1,213,367
Capital leases					
Hangers	36,000		(8,000)	28,000	9,000
New Haven Water tank	63,000		(11,000)	52,000	12,000
N Nelson fire truck	104,000		(11,000)	93,000	12,000
Main hangar	95,000		(5,000)	90,000	5,000
Total Capital Leases	298,000	0	(35,000)	263,000	38,000
Total long-term liabilities	\$ 13,381,584	\$ 375,000	\$ (1,217,111)	\$12,539,473	\$ 1,251,367

1) Landfill

- a) On November 22, 1994, the County of Nelson (Kentucky) Public Improvements Corporation issued First Mortgage Revenue Bonds Series 1994, dated November 1, 1994, in the amount of \$4,320,000. Proceeds from this bond issue provided funds for the acquisition and construction of the Nelson County Solid Waste Disposal Facility (Landfill).
- b) On April 12, 1995, County of Nelson (Kentucky) Public Improvements Corporation entered into an agreement to purchase land for a new landfill. The total debt of \$225,000 is payable over ten (10) years in equal installments of \$22,500 per year, plus interest calculated at the rate of 7% per annum.

2) Emergency Medical Services

- a) On January 28, 2002, the County of Nelson purchased Nelson County EMS pursuant to a purchase agreement with the former owners. This agreement provided for payments of \$400,976 at closing and eight bi-annual payments of \$55,333.63 each beginning January 1, 2003. The balance due the former owners is a non-interest bearing, unsecured agreement.

3) Nelson County Public Improvements Corporation

- a) On October 18, 1996, Nelson County Fiscal Court entered into an agreement to borrow \$250,000 from Farmers Bank & Trust Company (now Town & Country Bank & Trust) to finance the Melody Lake Water Project. The total debt is payable over ten (10) years in equal installments, with interest calculated at 80% of prime. As of June 30, 2004, the current interest rate was 3.8%.
- b) On May 22, 1998, the Nelson County Public Improvement Corporation entered into an agreement to borrow \$1,600,000 from Farmers Bank & Trust Company (now Town & Country Bank & Trust company) to assist in the development of a shopping center. The original note was payable over ten (10) years in equal semi-annual installments, with a 5.3% interest rate. The original note matures May 22, 2006. In May, 2004, terms of the repayment on this note were renegotiated with a revised interest rate of 5.24%, semiannual principal payments of \$52,500, and a final maturity of May 22, 2008.
- c) The Nelson County Public Improvements Corporation has entered into the following lease agreements:
 - i) On April 14, 1992, the Nelson County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT). The lease provided \$105,000 for airport hangar construction and bears interest at 5.63% annually for a period of 15 years. Interest is paid monthly and principal is paid annually.
 - ii) On January 5, 1993, the Nelson county Fiscal court entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT). The lease provided \$150,000 to construct a water tank for the City of New Haven. This lease has a variable interest rate that is adjusted annually. As of June 30, 2004, the interest rate was 5.15%. Interest is paid monthly and principal is paid annually.

- iii) On April 4, 2001, the Nelson County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT). The lease provided \$125,000 to purchase a fire truck for the Northeast Nelson Fire Department. This lease bears interest at a rate of 3.99% annually for a period of 10 years. Interest is payable monthly and principal is payable annually.
 - iv) On April 30, 2002, the Nelson County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT). The lease provided \$100,000 for construction of an airport hangar. This lease has a variable interest rate that is adjusted annually. As of June 30, 2004, the interest rate was 5.63%. Interest is payable monthly and principal is paid annually.
- 4) Nelson County Public Properties Corporation
- a) On February 15, 2002, Nelson County Public Properties Corporation issued First Mortgage Revenue Bonds Series 2002 dated March 1, 2002, in the amount of \$11,005,000. Proceeds from this bond issue provided funds for the construction of the Nelson County Justice Center. The Corporation has entered into a lease with the Administrative Office of the Courts (AOC), whereby AOC will lease from the Corporation the courthouse complex at a rental amount equal to the sum of the Use Allowance and the Operating Cost Allowance with an exclusive option to renew the lease on July 1 of each even numbered year for a period of two (2) years. AOC is not required to lease for more than two years or to obligate itself for the rental for more than a two year period. Interest rates on these bonds range from 3.0% to 5%. Interest is paid semi-annually and principal is due in annual installments.
 - b) On October 16, 2003, Nelson County Public Properties Corporation issued additional First Mortgage Revenue Bonds Series 2002 B dated October 1, 2003, in the amount of \$375,000. Proceeds from this bond issue provided funds for the completion of the Nelson County Justice Center. The Corporation has entered into a lease with the Administrative Office of the Courts (AOC), whereby AOC will lease from the Corporation the courthouse complex at a rental amount equal to the sum of the Use Allowance and the Operating Cost Allowance with an exclusive option to renew the lease on July 1 of each even numbered year for a period of two (2) years. AOC is not required to lease for more than two years or to obligate itself for the rental for more than a two year period. Interest rates on these bonds range from 1.05% to 4.5%. Interest is paid semi-annually and principal is due in annual installments on the same maturity schedule as the original bonds in 2002.

DEBT SERVICE REQUIREMENTS TO MATURITY

The annual debt service requirements to maturity, including principal and interest, for long-term bonds, notes, and leases as of June 30, 2004, are as follows:

YEAR ENDED JUNE 30	DEBT SERVICE REQUIREMENTS TO MATURITY BONDS & NOTES		LEASES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
6/30/2005	\$ 1,305,794	\$ 561,588	\$ 38,000	\$ 14,418
6/30/2006	748,956	510,023	39,000	12,229
6/30/2007	700,251	485,347	41,000	9,977
6/29/2008	591,472	461,322	32,000	7,609
6/29/2009	450,000	436,238	19,000	5,842
2010 - 2014	2,555,000	1,885,540	54,000	16,719
2015 - 2019	3,170,000	1,266,413	25,000	8,319
2020 - 2024	3,155,000	402,250	15,000	1,584
Total	\$ 12,676,473	\$ 6,008,721	\$ 263,000	\$ 76,697

NOTE 7—INTERFUND TRANSFERS AND BALANCES

Transfers between funds of the primary government are listed below. There were no outstanding balances between funds of the primary government as of June 30, 2004.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 152,045	\$1,174,632
County Road Aid	600,000	
Jail	960,962	
OLF		650,000
Homeland Security	13,670	
EMS	300,000	
Solid Waste		84,101
Landfill		117,944
Total	<u>\$2,026,677</u>	<u>\$2,026,677</u>

The County transfers General property tax revenues to support Jail operations as necessary. During fiscal year 2004, funds were also transferred to Homeland Security to provide matching funds for a federal grant. Occupational license tax revenues are transferred as needed to support operation of the County Road Department and the Emergency Medical Service. Transfers from the Solid Waste and Landfill to the General Fund represent administrative cost reimbursements.

NOTE 8—PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The County of Nelson participates in the statewide cost-sharing multi-employer (County Employees Retirement System-CERS) defined benefit plan on behalf of all full-time county employees. Sheriff's deputies participate in the hazardous duty plan and all other full-time employees are enrolled in the non-hazardous duty plan. CERS is a defined benefit plan created by the Kentucky General Assembly. CERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits fully vest upon reaching 5 years of service and are established by state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit. CERS also provides survivor, disability and health care coverage. Authority to establish and amend benefits is provided by Kentucky Revised Statutes Section 61.645.

CERS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by telephone at 502-5664-4646. Additional disclosures required by the Governmental Accounting Standards Board with respect to the cost-sharing plan are provided in those financial statements.

Kentucky Revised Statutes provides statutory authority for employee and employer contributions. Employees and the County have contributed 100% of the required contributions as required by state statute. Contribution rates for the fiscal year ended June 30, 2004, were as follows:

	<u>Employee</u>	<u>Employer</u>
Nonhazardous	5.0%	7.34%
Hazardous-duty	8.0%	18.51%

The County contributed \$259,712 for nonhazardous employees and \$164,487 for hazardous-duty employees for the fiscal year ended June 30, 2004.

CERS also provides post retirement health care coverage to age and service retirees with 20 or more years of qualifying CERS service credit. A portion of each employer's and employee's contribution to CERS is set aside for the funding of post retirement health care. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in Governmental Accounting Standards Board Statement Number 12. KRS provides statutory authority requiring public employers to fund post retirement health care through their contributions to CERS.

NOTE 9—COMMITMENTS AND CONTINGENCIES

CLOSURE AND POSTCLOSURE CARE COST OF MUNICIPAL SOLID WASTE LANDFILL

State and federal laws and regulations require the Nelson county Fiscal Court to place a final cover on its Municipal Solid Waste Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste.

As of June 30, 2004, an estimated \$2,956,239 will be required for landfill closure cost and \$5,310,000 for postclosure care liability. Approximately 30% of the landfill airspace capacity had been used as of June 30, 2004. The projected date of closure is in the year 2017. No cost related to closure or postclosure care has been incurred to date. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Estimates are adjusted for inflation.

LITIGATION

The County is a party to various legal proceedings that normally occur in the course of governmental operations. As a result of the modified cash basis of accounting, the financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the County, the County believes that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the County.

NOTE 10—RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The County purchases commercial insurance to cover all types of losses. Management believes such coverage is sufficient to preclude any significant uninsured losses to the County. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 11—SUBSEQUENT EVENTS

The County entered into an agreement on July 26, 2004, to purchase additional land for a new Industrial Park. Funding for the initial land acquisition will be provided by Salt River Electric Coop. The mortgage bears interest at a variable rate of 1% over the 1 year Treasury Index. As of July 26, 2004, the interest rate was 3.07% and will be adjusted annually thereafter. Payments on the principal are only due when parcels of real estate are sold, based on the proportion of the value of the property sold to the entire property.

The county continues to serve as the administrator of federal grant funding for the Region 5 Haz Mat team. Several grants have been awarded for the purchase of equipment that will be stored in Nelson County.

Nelson County Fiscal Court
01 General Fund Budget vs. Actual
July 2003 through June 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Receipts				
4100 · Taxes	\$ 2,887,500	\$ 2,887,500	\$ 3,028,276	\$ 140,776
4400 · Licenses & Permits	220,000	220,000	332,332	112,332
4500 · Intergovernmental Revenues	1,199,420	1,262,920	805,963	(456,957)
4600 · Charges for Services	330,500	386,500	196,361	(190,139)
4700 · Other	165,000	45,500	17,026	(28,474)
4801 · Interest	33,500	33,500	11,176	(22,324)
Total Receipts	<u>4,835,920</u>	<u>4,835,920</u>	<u>4,391,134</u>	<u>(444,786)</u>
Disbursements				
5000 · General Government	1,943,761	2,077,009	1,732,227	344,782
5100 · Public Protection				0
5105 · Law Enforcement	729,500	749,000	715,445	33,555
5115 · Building Inspection	50,000	50,000	46,574	3,426
5120 · Fire Protection	25,000	25,000	17,147	7,853
5135 · Emergency Management	76,000	96,700	92,241	4,459
5175 · Public Advocacy	6,000	6,000	4,685	1,315
5200 · General Health & Sanitation	470,500	470,500	452,037	18,463
5300 · Social Services	198,000	200,000	143,278	56,722
5400 · Recreation & Culture	232,300	241,600	231,675	9,925
6105 · Road Maintenance	20,000	24,700	22,739	1,961
6301 · Transportation Services	220,000	220,000	175,075	44,925
7500 · General Debt Service	3,125,000	2,945,185	2,922,117	23,068
8000 · Capital Projects	660,000	715,356	1,143,259	(427,903)
9200 · Contingencies	215,334	870		870
Total Disbursements	<u>7,971,395</u>	<u>7,821,920</u>	<u>7,698,499</u>	<u>123,421</u>
Excess Operating Receipts over Disbursements	(3,135,475)	(2,986,000)	(3,307,365)	(321,365)
Other Receipts/Disbursements				
4909 · Transfers Out	(1,261,570)	(1,411,045)	(1,174,632)	236,413
4910 · Transfers In	152,045	152,045	152,045	
4911 · Borrowed Money	3,100,000	3,100,000	3,911,500	811,500
Total Other Receipts/Disbursements	<u>1,990,475</u>	<u>1,841,000</u>	<u>2,888,913</u>	<u>1,047,913</u>
Fund Balance, July 1	<u>1,145,000</u>	<u>1,145,000</u>	<u>809,411</u>	<u>(335,589)</u>
Fund Balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 390,959</u>	<u>\$ 390,959</u>

See accompanying notes to the basic financial statements.

Nelson County Fiscal Court
02 Road Fund Budget vs. Actual
July 2003 through June 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Receipts				
4500 · Intergovernmental Revenues	\$ 1,257,093	\$ 1,257,093	\$1,246,387	\$ (10,706)
4700 · Other	2,500	2,500	4,799	2,299
4801 · Interest	5,000	5,000	2,577	(2,423)
Total Receipts	<u>1,264,593</u>	<u>1,264,593</u>	<u>1,253,763</u>	<u>(10,830)</u>
Disbursements				
6105 · Road Maintenance	1,159,766	1,087,182	1,040,880	46,302
8000 · Capital Projects	725,000	876,568	864,359	12,209
9200 · Contingencies	79,827	843		843
Total Disbursements	<u>1,964,593</u>	<u>1,964,593</u>	<u>1,905,239</u>	<u>59,354</u>
Excess Operating Revenues over Disbursements	(700,000)	(700,000)	(651,476)	48,524
Other Receipts/Disbursements				
4910 · Transfers In	600,000	600,000	600,000	0
Total Other Receipts/Disbursements	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>	<u>0</u>
Fund Balance, July 1	<u>100,000</u>	<u>100,000</u>	<u>77,349</u>	<u>(22,651)</u>
Fund Balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,873</u>	<u>\$ 25,873</u>

See accompanying notes to the basic financial statements.

Nelson County Fiscal Court
03 Jail Fund Budget vs. Actual
July 2003 through June 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Receipts				
4500 · Intergovernmental Revenues	\$ 194,160	\$ 194,160	\$ 133,694	\$ (60,466)
4600 · Charges for Services	159,500	159,500	112,729	(46,771)
4700 · Other	124,000	124,000	138,553	14,553
Total Receipts	<u>477,660</u>	<u>477,660</u>	<u>384,976</u>	<u>(92,684)</u>
Disbursements				
5100 · Public Protection	1,489,230	1,534,509	1,341,617	192,892
8000 · Capital		4,321	4,321	
9200 · Contingencies	50,000	400		400
Total Disbursements	<u>1,539,230</u>	<u>1,539,230</u>	<u>1,345,938</u>	<u>193,292</u>
Excess Operating Revenues over Disburser	(1,061,570)	(1,061,570)	(960,962)	100,608
Other Receipts/Disbursements				
4910 · Transfers In	1,061,570	1,061,570	960,962	(100,608)
Total Other Receipts/Disbursements	<u>1,061,570</u>	<u>1,061,570</u>	<u>960,962</u>	<u>(100,608)</u>
Net Excess Receipts over Disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

Nelson County Fiscal Court
04 LGEA Fund Budget vs. Actual
July 2004 through February 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Receipts				
4500 · Intergovernmental Revenues	<u>\$ 88,678</u>	<u>\$ 88,678</u>	<u>\$ 148,175</u>	<u>\$ 59,497</u>
Total Receipts	<u>88,678</u>	<u>88,678</u>	<u>148,175</u>	<u>59,497</u>
Disbursements				
6105 · Road Maintenance	<u>175,000</u>	<u>199,774</u>	<u>198,897</u>	<u>877</u>
9200 · Contingencies	<u>25,000</u>	<u>226</u>		<u>226</u>
Total Disbursements	<u>200,000</u>	<u>200,000</u>	<u>198,897</u>	<u>1,103</u>
Excess Receipts over Disbursements	<u>(111,322)</u>	<u>(111,322)</u>	<u>(50,722)</u>	<u>60,600</u>
Fund Balance, July 1	<u>111,322</u>	<u>111,322</u>	<u>162,179</u>	<u>50,857</u>
Fund Balance, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 111,457</u></u>	<u><u>\$ 111,457</u></u>

See accompanying notes to the basic financial statements.

Nelson County Fiscal Court
23 OLF Fund Budget vs. Actual
July 2003 through June 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Receipts				
4134 · Occupational License Fee	\$ 900,000	\$ 900,000	\$ 932,429	\$ 32,429
4801 · Interest	2,000	2,000	854	(1,146)
Total Receipts	<u>902,000</u>	<u>902,000</u>	<u>933,283</u>	<u>31,283</u>
Disbursements				
5000 · General Government	259,000	263,800	140,642	123,158
6200 · Air Board Contribution	9,000	9,000	2,400	6,600
8000 · Capital Projects		28,887	33,323	(4,436)
9200 · Contingencies	34,000	313		313
Total Disbursements	<u>302,000</u>	<u>302,000</u>	<u>176,365</u>	<u>125,635</u>
Excess Operating Receipts over Disbursements	600,000	600,000	756,918	156,918
Other Receipts/Disbursements				
4909 · Transfers Out	(650,000)	(650,000)	(650,000)	0
Total Other Receipts/Disbursements	<u>(650,000)</u>	<u>(650,000)</u>	<u>(650,000)</u>	<u>0</u>
Fund Balance, July 1	<u>50,000</u>	<u>50,000</u>	<u>67,540</u>	<u>17,540</u>
Fund Balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,458</u>	<u>\$ 174,458</u>

See accompanying notes to the basic financial statements.

Nelson County Fiscal Court
DES Grants YTD Summary
 July 2003 through June 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Receipts				
4504 · Federal Grants	\$ 100,000	\$ 114,664	\$ 113,923	\$ (741)
Total Receipts	<u>100,000</u>	<u>114,664</u>	<u>113,923</u>	<u>(741)</u>
Disbursements				
8000 · Capital Projects	100,000	129,139	126,480	2,659
Total Disbursements	<u>100,000</u>	<u>129,139</u>	<u>126,480</u>	<u>2,659</u>
Excess Operating Receipts over Disbursements		(14,475)	(12,557)	1,918
Other Receipts				
4910 · Transfers In		14,475	13,670	(805)
Total Other Receipts		<u>14,475</u>	<u>13,670</u>	<u>(805)</u>
Fund Balance, July 1				
Fund Balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,113</u>	<u>\$ 1,113</u>

See accompanying notes to the basic financial statements.

Nelson County Fiscal Court
09 Ambulance Fund Budget vs. Actual
July 2003 through June 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Receipts				
4500 • Intergovernmental Revenues	\$ 20,000	\$ 20,000	\$ 11,133	\$ (8,867)
4600 • Charges for Services	900,000	960,000	1,117,231	157,231
4700 • Other			4,757	4,757
4801 • Interest	1,000	1,000	1,428	428
Total Receipts	<u>921,000</u>	<u>981,000</u>	<u>1,134,549</u>	<u>153,549</u>
Disbursements				
5100 • Public Protection	988,500	1,242,095	1,208,257	33,838
7500 • General Debt Service	110,667	110,668	110,667	1
8000 • Capital Projects	15,000	79,500	76,227	3,273
9200 • Contingencies	123,666	570		570
Total Disbursements	<u>1,237,833</u>	<u>1,432,833</u>	<u>1,395,151</u>	<u>37,682</u>
Excess Operating Receipts over Disbursement	(316,833)	(451,833)	(260,602)	191,231
Other Receipts/Disbursements				
4910 • Transfers In	300,000	435,000	300,000	(135,000)
Total Other Receipts/Disbursements	<u>300,000</u>	<u>435,000</u>	<u>300,000</u>	<u>(135,000)</u>
Fund Balance, July 1	<u>16,833</u>	<u>16,833</u>	<u>43,777</u>	<u>26,944</u>
Fund Balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,175</u>	<u>\$ 83,175</u>

See accompanying notes to the basic financial statements.

Nelson County Fiscal Court
13 Solid Waste Fund Budget vs. Actual
July 2003 through June 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Receipts				
4500 · Intergovernmental revenues	\$ 8,000	\$ 8,000	\$ 10,000	\$ 2,000
4600 · Charges for Services	875,000	875,000	931,984	56,984
4801 · Interest	3,000	3,000	802	(2,198)
Total Receipts	<u>886,000</u>	<u>886,000</u>	<u>942,786</u>	<u>56,786</u>
Disbursements				
5200 · General Health & Sanitation	870,250	872,505	702,624	169,881
8000 · Capital Projects	105,000	120,000	119,999	1
9200 · Contingencies	76,649	59,394		59,394
Total Disbursements	<u>1,051,899</u>	<u>1,051,899</u>	<u>822,623</u>	<u>229,276</u>
Excess Operating Receipts over Disbursement:	(165,899)	(165,899)	120,163	286,062
Other Receipts/Disbursements				
4909 · Transfers Out	(84,101)	(84,101)	(84,101)	
Total Other Receipts/Disbursements	<u>(84,101)</u>	<u>(84,101)</u>	<u>(84,101)</u>	
Fund Balance, July 1	<u>250,000</u>	<u>250,000</u>	<u>138,364</u>	<u>(111,636)</u>
Fund Balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,426</u>	<u>\$ 174,426</u>

See accompanying notes to the basic financial statements.

Nelson County Fiscal Court
15 Landfill Fund Budget vs. Actual
July 2003 through June 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Receipts				
4500 · Intergovernmental revenues	\$ 50,000	\$ 50,000	\$ 43,277	\$ (6,723)
4600 · Charges for Services	1,806,500	1,806,500	2,408,038	601,538
4700 · Other	15,000	15,000	14,550	(450)
4801 · Interest	40,000	40,000	19,276	(20,724)
Total Receipts	<u>1,911,500</u>	<u>1,911,500</u>	<u>2,485,141</u>	<u>573,641</u>
Disbursements				
5200 · General Health & Sanitation	1,078,474	1,162,794	1,022,365	140,429
7200 · Landfill Debt Service	585,313	585,313	585,313	
8000 · Capital Projects	255,000	255,000	193,081	61,919
9200 · Contingencies	1,874,769	1,790,449		1,790,449
Total Disbursements	<u>3,793,556</u>	<u>3,793,556</u>	<u>1,800,759</u>	<u>1,992,797</u>
Excess Operating Receipts over Disbursement:	(1,882,056)	(1,882,056)	684,382	2,566,438
Other Receipts/Disbursements				
4909 · Transfers Out	(117,944)	(117,944)	(117,944)	
Total Other Receipts/Disbursements	<u>(117,944)</u>	<u>(117,944)</u>	<u>(117,944)</u>	
Fund Balance, July 1	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,473,506</u>	<u>473,506</u>
Fund Balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,039,944</u>	<u>\$ 3,039,944</u>

See accompanying notes to the basic financial statements.

Nelson County Fiscal Court
05 Justice Center Construction Budget vs. Actual
July 2003 through June 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Receipts				
4711 · Property Rental			\$ 245,413	\$ 245,413
4801 · Interest	<u>10,000</u>	<u>10,000</u>	<u>3,931</u>	<u>(6,069)</u>
Total Receipts	<u>10,000</u>	<u>10,000</u>	<u>249,344</u>	<u>239,344</u>
Disbursements				
5000 · General Government	<u>2,510,000</u>	<u>2,510,000</u>	<u>2,127,116</u>	<u>382,884</u>
Total Disbursements	<u>2,510,000</u>	<u>2,510,000</u>	<u>2,127,116</u>	<u>382,884</u>
Excess Operating Receipts over Disbursements	(2,500,000)	(2,500,000)	(1,877,772)	622,228
Other Receipts/Disbursements				
4905 · Bond proceeds	<u>0</u>	<u>350,000</u>	<u>375,000</u>	<u>25,000</u>
Total Other Receipts/Disbursements	<u>0</u>	<u>350,000</u>	<u>375,000</u>	<u>25,000</u>
Fund Balance, July 1	<u>2,500,000</u>	<u>2,150,000</u>	<u>1,566,787</u>	<u>(583,213)</u>
Fund Balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,015</u>	<u>\$ 64,015</u>

See accompanying notes to the basic financial statements.

Nelson County Fiscal Court
97 PIC Fund Budget vs. Actual
July 2003 through June 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Receipts				
4100 · Taxes	\$ 200,000	\$ 200,000	\$ 122,787	\$ (77,213)
4500 · Intergovernmental Revenues	603,000	603,000	353,000	(250,000)
4600 · Charges for Services	282,000	1,171,500	880,307	(291,193)
4700 · Other	10,000	10,000	11,175	1,175
4801 · Interest			741	741
Total Receipts	<u>1,095,000</u>	<u>1,984,500</u>	<u>1,368,010</u>	<u>(616,490)</u>
Disbursements				
5000 · General Government	384,000	435,879	473,284	(37,405)
5400 · Recreation & Culture	200,000	200,000	122,787	77,213
7700 · PIC Debt Service	310,729	1,500,229	880,947	619,282
8000 · Capital Projects	500,000	3,698,300	39,224	3,659,076
9200 · Contingencies	50,271	92		92
Total Disbursements	<u>1,445,000</u>	<u>5,834,500</u>	<u>1,516,242</u>	<u>4,318,258</u>
Excess Operating Receipts over Disbursement:	(350,000)	(3,850,000)	(148,232)	3,701,768
Other Receipts/Disbursements				
4905 · Bond proceeds		3,500,000		(3,500,000)
4911 · Borrowed Money	250,000	250,000		(250,000)
Total Other Receipts	<u>250,000</u>	<u>3,750,000</u>		<u>(3,750,000)</u>
Fund Balance, July 1	<u>100,000</u>	<u>100,000</u>	<u>198,070</u>	<u>98,070</u>
Fund Balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,838</u>	<u>\$ 49,838</u>

See accompanying notes to the basic financial statements.

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NELSON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Jail Canteen Fund.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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NELSON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2004

**NELSON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report an unqualified opinion on the financial statements of Nelson County, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Nelson County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Nelson County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Nelson County reported in Part C of this schedule.
7. The programs tested as major programs were: Community Development Block Grant and Highway Planning and Construction.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Nelson County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

None

REPORTABLE CONDITIONS

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

None

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NELSON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**NELSON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2004

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
Department of Housing & Urban Development:		
Community Development Block Grant (CFDA 14.228)	02-009	\$ 353,000
Department of Homeland Security:		
State Domestic Preparedness Equipment & Support Program (CFDA 97.004):		
Phase I Direct Funding	M03138124	28,725
Phase II Direct Funding	M03254738	71,012
Emergency Management Performance Grant (CFDA 97.042)	M04028477	<u>13,075</u>
Total Department of Homeland Security		112,812
Department of Justice:		
Local Law Enforcement Block Grant (CFDA 16.592)	Not Available	5,000
Department of Transportation:		
Highway Planning and Construction (CFDA 20.205)	C-05006162	<u>800,000</u>
Total Cash Expenditures of Federal Awards		<u>\$ 1,270,812</u>

NELSON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2004

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Nelson County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Watts, Nelson County Judge/Executive
Members of the Nelson County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the agency fund, each major fund, and the aggregate remaining fund information of Nelson County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated August 12, 2005. Nelson County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Nelson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Nelson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed no instances of material noncompliance or other matters that is required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, and the Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 12, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Watts, Nelson County Judge/Executive
Members of the Nelson County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Nelson County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Nelson County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Nelson County's management. Our responsibility is to express an opinion on Nelson County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Nelson County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Nelson County's compliance with those requirements.

In our opinion, Nelson County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Nelson County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Nelson County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 12, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

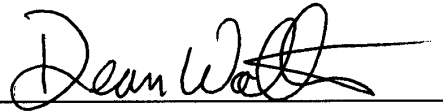
NELSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

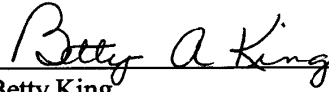
CERTIFICATON OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
NELSON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2004

The Nelson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Fund was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in cursive script, appearing to read "Dean Watts", written over a horizontal line.

Dean Watts
Judge Executive

A handwritten signature in cursive script, appearing to read "Betty A. King", written over a horizontal line.

Betty King
County Treasurer